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November 13, 2017

Via email to director@fasb.org

Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Technical Corrections and Improvements to Recently Issued Standards - Part I: Accounting Standards Update No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities; Part II: Accounting Standards Update No. 2016-02, Leases (Topic 842) (File Reference No. 2017-310)

Dear Ms. Cospers:

We are pleased to provide comments to the Board's proposal to clarify the new financial instrument and leasing standards.

We support the Board's ongoing project regarding technical corrections and improvements to clarify the FASB Accounting Standards Codification. We believe the proposal, together with our recommendations, would improve both standards.

Our responses to the Board's specific questions are provided in the Appendix to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673 or Angela Newell at (214) 689-5669.

Very truly yours,

A handwritten signature in black ink that reads 'BDO USA, LLP'. The letters are written in a cursive, slightly slanted style.

BDO USA, LLP

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Appendix

Part I: Accounting Standards Update No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities

Question 1: The proposed amendments are intended to improve the clarity of the guidance in Update 2016-01. Would the proposed amendments clarify that guidance? If not, please explain which proposed amendment(s) would not provide clarification, and why.

While we generally agree with the proposed amendments, we believe the Board should clarify the following matter.

We note that *“Issue 1: Equity Securities without a Readily Determinable Fair Value - Discontinuation”* retains the guidance in ASC 321-10-35-2 that provides the initial election to measure a security without a readily determinable fair value at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer to be made on an individual security basis. However, the proposed update will require an entity that subsequently elects to measure a security at fair value in accordance with Topic 820 to apply that election to all equity securities of the *“same type.”* Requiring an election for all securities of particular group would be inconsistent with the initial election, and with the fair value option election in Topic 825. In effect, a Day 2 accounting election for a particular group of instruments will override a Day 1 election for individual instruments. Therefore, if the proposed guidance is to prevent abusive “cherry-picking” we suggest that the Basis for Conclusions clarify the rationale, considering the otherwise conflicting Day 1 election noted above. Alternatively, we recommend that the Board remove the requirement to apply an election to measure a security at fair value to all securities of the same type, and allow the election on an individual security basis.

If the proposed guidance is retained in the final amendments, then we suggest adding implementation guidance on what is intended by *“same type.”* Is it the Board’s intent to define same type as the same issuer, similar securities, or class? We believe clarifying this concept will be critical to a consistent application of the proposed update.

Question 2: Will any of the proposed amendments result in substantive changes to the application of Update 2016-01 that would require transition provisions or an effective date for the final amendments other than as noted in the Summary section “When Would the Amendments Be Effective?” If so, please describe.

We agree that the effective date of the proposed amendments should coincide with the effective date of Update 2016-01 and do not believe that different transition provisions are required.

Question 3: Should other changes be made that are directly or indirectly related to the proposed amendments? Please note that the Board will conduct Codification improvements projects on a periodic basis and additional changes may be postponed to a subsequent Codification improvements project.

When the language proposed in ASC 825-10-45-5A and 830-20-35-7A is read literally, it indicates entities should *present* the change in instrument-specific credit risk in the liability’s currency of denomination, as opposed to the reporting currency. To illustrate:

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"...the change in fair value shall be presented separately...in the liability's currency of denomination."

We believe the Board intends to *measure* this amount in the currency of denomination, but that it should be *presented* in the entity's reporting currency, consistent with the discussion in BC17. As such, we recommend conforming the language in the final amendments to that which is used in BC17.

As a separate drafting matter, we note paragraph ASC 825-10-45-5 in Issue 5 does not contain the added text "of Subtopic 815-15" as it appears in Issue 4. If Issues 4 and 5 are presented separately in the final amendments, we recommend a consistent approach, i.e., inserting the text "of Subtopic 815-15" to the amendments included in Issue 5.

Part II: Accounting Standards Update No. 2016-02, Leases (Topic 842)

Question 1: Would the amendments in this proposed Update clarify the guidance in Topic 842 or provide a better link between paragraphs within Topic 842 or between the guidance in Topic 842 and other Topics? If not, please explain which proposed amendment(s) you disagree with and why.

We agree that the proposed amendments would clarify and improve the guidance in Topic 842.

Question 2: Will any of the proposed amendments result in substantive changes to the application of Topic 842 that would require transition provisions or an effective date for the final amendments other than those noted in the Summary section "When Would the Amendments Be Effective?" If so, please describe.

We agree that the effective date of the proposed amendments should coincide with the effective date of Topic 842 and do not believe that different transition provisions are required.

Question 3: Should other changes that are directly or indirectly related to the proposed amendments be made? Please note that the Board will conduct Codification improvements projects on a periodic basis and additional changes may be postponed to a subsequent Codification improvements project.

We note that Example 12 in Topic 842 is clear that real estate taxes and property insurance are not components of a lease, and that a lessee's payment of those amounts solely represents a reimbursement of the lessor's costs. Therefore, a lessor must include any payments of real estate taxes or property insurance on its behalf by the lessee as additional consideration in the arrangement. In many commercial leases, in particular those for single-tenant properties, the lessee is responsible for obtaining property insurance, with the lessor as the named-insured. Consequently, the lessor has limited information related to the cost of the insurance, nor whether that cost is a reasonable, market-based price. Thus, in order to comply with the guidance in Topic 842, the lessor will be required to determine the lessee's cost of obtaining property insurance.

While we agree with the principle that real estate taxes and property insurance are costs of the lessor and not a component of the lease arrangement, we do not believe that requiring the lessor to report gross revenues and insurance expense on its income statement in an amount that it neither knows nor has control over provides useful information to users of financial statements. Therefore,

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we recommend that the Board provide a practical expedient indicating that if a lessor cannot determine the value of insurance coverage obtained by its lessee on its behalf, that it may elect to disclose that fact in lieu of estimating the cost. We note that allowing the lessor to recognize lease income net of amounts paid directly by the lessee for insurance would be consistent with the accounting articulated in paragraph 38 of the basis for conclusions to ASU 2016-08, Principal versus Agent Considerations, in the situation in which an entity is a principal in a transaction but uncertainty in the transaction price is not expected to ultimately be resolved.